

Commonwealth of Massachusetts
Department of Telecommunications and Energy
Fitchburg Gas and Electric Light Company
Docket No. D.T.E. 02-24/25
Record Request Response

Record Request No.: DTE-RR-45 (Common)

"Referring to MHC-11 (electric) and (gas), please provide the derivation of the calculation of the FAS 109 accounting for income tax, federal and state, that appear on both those schedules, and incorporate into that schedule the mixture of gross-up plus whatever that derives those numbers, or supports those numbers."

Response:

The derivations of the calculation of the FAS 109 accounting for income tax, federal and state, that appear on MHC-11 for electric and gas, including the original set up of these numbers, are outlined in the following attachments:

Attachment 1 DTE-RR-45 shows the original establishment of the FAS 109 Regulatory Asset of \$16,081,030; the Regulatory Liability of (\$6,381,604) and the DIT Gross Up of (\$3,266,231).

Initial Set-up of FAS 109 Regulatory Asset, Regulatory Liability and Regulatory Gross-Up Accounts: In 1993, FG&E established the deferred tax Regulatory Asset and Liability accounts in accordance with the revaluation of the Company's deferred tax assets and liabilities under FAS 109.

In accordance with the provisions of FAS 109, the resulting Regulatory Asset of \$9,955,446 and the Regulatory Liability of (\$3,522,250) were then grossed up to \$16,081,030 and (\$5,689,492), respectively. There was also an entry posted to the Regulatory Liability Account for the Investment Tax Credit in the amount of (\$692,112). This increased the Regulatory Liability (\$6,381,604). The deferred tax gross up component was (\$3,266,231.)

Summary of FAS 109 Accounts in 1993:

Regulatory Asset	\$16,081,030
Regulatory Liability	(6,381,604)
DIT Gross-up	(3,266,231)

Attachment 2 DTE-RR-45 shows the activity in the FAS 109 accounts from inception to December 31, 2001.

Each quarter, FG&E adjusts the FAS 109 Regulatory Asset and Liability accounts to reflect changes in the timing differences that gave rise to deferred income tax balances under FAS 109. The DIT Gross-Up is adjusted for the net change in these Regulatory Asset and Liability balances each quarter reflecting the amortization of the net Regulatory Asset balance for changes in timing differences and adjustments to the gross up on these changes.

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Other changes in the FAS 109 Regulatory Asset and Liability balances were caused by the reclassification, retirement, write-off or disposition of assets. FG&E had three such items from the time FAS 109 was adopted. These adjustments were as follows:

In 1994, there was an abatement that went to reduce the unamortized balance of the Seabrook amortization Regulatory Asset.

In 1999, FG&E reclassified a portion of FAS 109 as a generation related Regulatory Asset for recovery through the Transition Charge.

In 2001, FG&E recorded an Extraordinary Item that reclassified additional amounts of FAS 109 related to generation related Regulatory Assets.

Person Responsible: Mark H. Collin

Establishment of FAS 109 Regulatory Asset, Liability and Gross-up Accounts

Description	Balance Per G/L 12/31/92	Def FIT per FAS 109	Difference	Regulatory Asset	Regulatory Liability
<u>Accum. Def. Federal Income Tax</u>					
Abandoned Property	283.06 (2,224)	(2,224)	-		
Cathodic Protection	283.05	(189,144)	(189,144)	(189,144)	
Percentage Repair Allowance	283.03 (352,864)	(56,516)	296,348		296,348
ACRS/MACRS Retirements	283.05 (1,994,055)	(111,201)	1,882,854		1,882,854
Depreciation	283.00 (6,002,273)	(12,265,489)	(6,263,216)	(6,263,216)	
FASB 87 - Pensions	283.05	(936,300)	(936,300)	(936,300)	
Unbilled Fuel	283.05	(79,697)	(79,697)	(79,697)	
Bad Debt	283.04 86,960	162,986	76,026		76,026
CIAC	283.05	226,992	226,992		226,992
KESOP Comp Exp/options exer	283.51 50,293	50,183	(110)	(110)	
AFUDC	283.02 (415,353)	(124,745)	290,608		290,608
#7 Turbine	283.07 (25,742)	(43,464)	(17,722)	(17,722)	
Overheads	283.05 170,546	(515,262)	(685,808)	(685,808)	
CIAC Depreciation	283.09 (16,655)	(21,680)	(5,025)	(5,025)	
Total Accum Def. FIT	(8,501,367)	(13,905,561)	(5,404,194)	(8,177,022)	2,772,828
Combined Gross Up Rate				161.5300%	161.5300%
				(13,208,343)	4,478,950
Investment Tax Credit	1,370,294	2,076,160	705,866		705,866
Net Regulatory Asset or Liability			(4,698,328)	(13,208,343)	5,184,816
<u>Accum. Def. State Income Tax</u>					
Abandoned Property	283.16 (72)	(72)	-		
Cathodic Protection	283.15	(44,105)	(44,105)	(44,105)	
Percentage Repair Allowance	283.13 (52,909)	(67,056)	(14,147)	(14,147)	
ACRS/MACRS Retirements	283.15 (201,574)	(33,510)	168,064		168,064
Depreciation	283.10 (633,189)	(2,106,071)	(1,472,882)	(1,472,882)	
FASB 87 - Pensions	283.15	(188,022)	(188,022)	(188,022)	
Unbilled Fuel	283.15	(15,494)	(15,494)	(15,494)	
Bad Debt	283.14 2,643	31,685	29,042		29,042
CIAC	283.15	44,129	44,129		44,129
KESOP Comp Exp/options exer	283.51 9,434	9,756	322		322
AFUDC	283.12 (513,999)	(6,133)	507,865		507,865
#7 Turbine	283.17 (2,942)	(8,450)	(5,508)	(5,508)	
Overheads	283.18 10,733	(26,487)	(37,220)	(37,220)	
CIAC Depreciation	283.19 (3,169)	(4,215)	(1,046)	(1,046)	
Total Accum Def. FIT	(1,385,044)	(2,414,045)	(1,029,002)	(1,778,424)	749,422
Combined Gross Up Rate				161.5300%	161.5300%
				(2,872,687)	1,210,542
Investment Tax Credit			(13,754)		(13,754)
Net Regulatory Asset or Liability			(1,042,756)	(2,872,687)	1,196,788
Total Accum. Def. Income Taxes	(9,886,411)	(16,319,606)	(5,741,084)	(16,081,030)	6,381,604

			Net
<u>Gross Up Amount</u>	Regulatory	Regulatory	Regulatory
<u>Federal</u>	Asset	Liability	Asset
Net Regulatory Asset or Liability	(13,208,343)	4,478,950	(8,729,393)
Total Accum. Def. FIT	(8,177,022)	2,772,828	(5,404,194)
ITC Gross Up		692,112	692,112
Total Gross Up Amount	(5,031,321)	2,398,234	(2,633,087)
<u>State</u>			
Net Regulatory Asset or Liability	(2,872,687)	1,210,542	(1,662,145)
Total Accum. Def. SIT	(1,778,424)	749,422	(1,029,002)
Total Gross Up Amount	(1,094,263)	461,120	(633,143)
<u>Combined</u>			
Net Regulatory Asset or Liability	(16,081,030)	5,689,492	(10,391,538)
Total Accum. Def. SIT	(9,955,446)	3,522,250	(6,433,196)
ITC Gross Up		692,112	692,112
Total Gross Up Amount	(6,125,584)	2,859,354	(3,266,230)

Fitchburg Gas and Electric Light Company
Analysis of FAS 109 Accounts
From 1993 to 2001

		Setup of Regulatory Asset	Setup of Regulatory Liability	Net Amount	
Regulatory Asset	186-00-00/	16,081,030	0	16,081,030	
Regulatory Liability	253-00-00	0	(6,381,603)	(6,381,603)	
Accum. Def. (FAS109) Gross-up	283-03-01	(6,125,585)	2,859,354	(3,266,231)	
Deferred Income Tax Asset		(9,955,445)	0	(9,955,445)	
Deferred Income Tax Liability		0	3,522,249	3,522,249	
Total		0	0	0	

		Regulatory Asset	Regulator Liability	Net Regulatory Asset	Gross-Up
Balance at Inception 1993		16,081,030	(6,381,603)	9,699,427	(3,266,231)
<u>1994 Quarterly Entries</u>					
- March		(71,699)	46,595	(25,104)	25,104
- June		(81,338)	56,264	(25,074)	25,074
- Sept		(142,307)	30,981	(111,326)	111,326
- Dec		(88,387)	67,123	(21,264)	21,264
Activity From April 1993 to March 1994		(383,731)	200,963	(182,768)	182,768
Balance at 3/1/1994		15,697,299	(6,180,640)	9,516,659	(3,083,463)
<u>1994 Quarterly Entries</u>					
- March		(65,905)	50,878	(15,027)	15,027
- June		(82,161)	43,831	(38,330)	38,330
- Sept		(90,582)	34,255	(56,327)	56,327
- Dec		(145,746)	37,247	(108,500)	108,500
- Dec Adjustment		(2,298)	0	(2,298)	38,113
Activity		(386,692)	166,211	(220,481)	256,297
Balance at 12/31/1994		15,310,607	(6,014,429)	9,296,178	(2,827,166)
<u>1995 Quarterly Entries</u>					
- March		(91,672)	73,741	(17,930)	17,930
- June		(113,357)	99,713	(13,643)	13,643
- Sept		(93,943)	168,000	74,057	(74,057)
- Dec		(101,144)	172,849	71,704	(71,704)
Activity		(400,116)	514,304	114,188	(114,188)
Balance at 12/31/1995		14,910,491	(5,500,126)	9,410,365	(2,941,354)
<u>1996 Quarterly Entries</u>					
- March		(182,176)	30,911	(151,265)	151,265
- June		(84,946)	31,866	(53,080)	53,080
- Sept		(89,075)	30,851	(58,224)	58,224
- Dec		(199,411)	90,949	(108,461)	108,461
Activity		(555,609)	184,578	(371,030)	371,030
Balance at 12/31/1996		14,354,882	(5,315,547)	9,039,335	(2,570,323)
<u>1997 Quarterly Entries</u>					
- March		(80,669)	23,457	(57,211)	57,211
- June		(154,193)	23,190	(131,003)	131,003
- Sept		(62,014)	83,684	21,670	(21,670)
- Dec		(112,163)	59,855	(52,309)	52,309
Activity		(409,038)	190,186	(218,852)	218,852
Balance at 12/31/1997		13,945,844	(5,125,361)	8,820,483	(2,351,471)

		Net	
		Regulatory Asset	Gross-Up
		Regulator Liability	Regulatory Asset
<u>1998 Quarterly Entries</u>			
- March	(90,201)	33,142	(57,059)
- June	0	0	0
- Sept	(178,157)	106,405	(71,751)
- Dec	(255,399)	186,335	(69,064)
Activity	(523,756)	325,882	(197,874)
Balance at 12/31/1998	13,422,088	(4,799,479)	8,622,608
<u>1999 Quarterly Entries</u>			
- March	(85,144)	99,065	13,921
- June	(53,594)	124,372	70,778
- Sept	(1,083,299)	80,423	(1,002,876)
- Dec	(109,471)	101,606	(7,865)
Activity	(1,331,508)	405,467	(926,041)
Balance at 12/31/1999	12,090,580	(4,394,012)	7,696,568
<u>2000 Quarterly Entries</u>			
- Jan	(3,269)	0	(3,269)
- March	(130,846)	40,390	(90,456)
- June	(39,113)	132,908	93,794
- Sept	(49,090)	48,265	(826)
- Dec	(136,983)	105,226	(31,757)
Activity	(359,301)	326,788	(29,244)
Balance at 12/31/2000	11,731,279	(4,067,224)	7,664,055
<u>2001 Quarterly Entries</u>			
- Jan	0	0	0
- March	(40,069)	30,413	(9,656)
- June	(59,760)	42,090	(17,670)
- Sept	(40,865)	217,376	176,511
- Dec	51,542	379,048	430,590
Activity	(89,152)	668,927	579,776
Balance at 12/31/2001	11,642,128	(3,398,297)	8,243,831